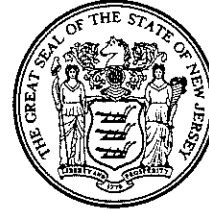

**New Jersey State Legislature
Office of Legislative Services
Office of the State Auditor**



**Department of Community Affairs
American Recovery and Reinvestment Act
Weatherization Assistance Program
Grant to New Jersey Community Action Association**

April 1, 2009 to November 30, 2010

**Stephen M. Eells
State Auditor**

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Enclosed is our report on the audit of the Department of Community Affairs, American Recovery and Reinvestment Act Weatherization Assistance Program, Grant to New Jersey Community Action Association for the period of April 1, 2009 to November 30, 2010. If you would like a personal briefing, please call me at (609) 292-3700.

Stephen M. Eells
State Auditor
April 18, 2011

Table of Contents

	Page
Scope	1
Background	1
Objective	2
Methodology	2
Conclusions	2
Findings and Recommendations	
Budgetary Controls	3
Procurement	4
NJCAA Financial Management System	5
Auditee Response	7

Scope

We have completed the third in a series of audits of the American Recovery and Reinvestment Act (ARRA) – Weatherization Assistance Program administered by the Department of Community Affairs (DCA). Our audit focused on the grant to the New Jersey Community Action Association (NJCAA) for the period April 1, 2009 to November 30, 2010. This agency is responsible for training and advertising for the ARRA Weatherization Assistance Program. As of November 30, 2010, \$2.538 million had been allocated to the NJCAA, and \$2.1 million was paid to them. Our initial audit of this program focused on the eligibility process at the local and community-based agencies. The second audit focused on the administrative and program costs of the local and community-based agencies.

Background

The ARRA Weatherization Assistance Program is proposed to run from April 1, 2009 to March 31, 2012. The Department of Community Affairs, Division of Housing and Community Resources oversees the program. The weatherization assistance program has existed for many years. Based on a federal formula, New Jersey received a total ARRA allocation of \$119 million for enhanced program grants and administration from the United States Department of Energy (USDOE). The USDOE has provided the DCA with 50 percent of the grant funds.

The DCA provides grants to community action agencies and other public or non-profit entities (hereinafter referred to as weatherization agencies) to administer the program at the local level. The weatherization agencies are responsible for determining applicant eligibility, weatherizing homes, and conducting home assessments and inspections. The weatherization agencies input the information from program applications into the Hancock Energy Software Weatherization Assistance Program system, which determines program eligibility and tracks the actual weatherization of residences. The DCA provided a grant to the New Jersey Community Action Association to conduct training for the 23 weatherization agencies, to ensure community awareness of the program through marketing and advertising, and to recruit eligible clients for the program.

Membership in the NJCAA is open to all Community Service Block Grant-funded community action agencies within the State of New Jersey. Agencies that are members of the NJCAA are assessed dues annually; dues were \$850 and \$1000 in 2009 and 2010, respectively. Of the 26 NJCAA members, 14 agencies are community-based agencies that perform weatherization services through the ARRA Weatherization Assistance Program. The remaining nine ARRA weatherization agencies are not members of the NJCAA, but are entitled to the training and services provided by the NJCAA with ARRA funds.

The DCA provides funding to the NJCAA through several programs in addition to the ARRA Weatherization Assistance Program: Community Service Block Grant, Universal Service Fund, and Low Income Home Energy Assistance Program. During our audit period, the NJCAA also received ARRA funds through the Community Service Block Grant. The services provided through all of the DCA grants were for printing applications, computer software and licensing fees, training and technical assistance, and development and operational costs.

Objective

The objective of our audit was to determine whether adequate controls were in place at the Department of Community Affairs to determine the allowability and propriety of the NJCAA's costs relating to ARRA weatherization activities.

This audit was conducted pursuant to the State Auditor's responsibilities as set forth in Article VII, Section I, Paragraph 6 of the State Constitution and Title 52 of the New Jersey Statutes.

Methodology

Our audit was conducted in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States.

In preparation for our testing, we reviewed the ARRA weatherization contract with the NJCAA and we studied the ARRA Weatherization Assistance Program guidelines, policies of the DCA, and weatherization bulletins. We also interviewed personnel from the DCA and the NJCAA to obtain an understanding of the administrative and operating processes.

A nonstatistical sampling approach was used. Because our review uncovered issues that affected other DCA programs, namely the Community Services Block Grant, Low Income Home Energy Assistance Program, and Universal Service Fund, we tested records at the NJCAA relating to all of DCA's programs. We obtained a copy of NJCAA's general ledger and tested postings for all programs, tested the timeliness of deposits for all of the DCA programs, reviewed activity within all NJCAA bank accounts, and examined the reasonableness of invoices for the ARRA Weatherization program. In addition, we compared invoices to contracts and payments to canceled checks. We also reviewed the ARRA Weatherization Financial Status Reports and the attached documentation submitted by the NJCAA to the DCA.

Conclusions

We found that DCA's inadequate budgetary and spending controls over the grant enabled the NJCAA to improperly spend Weatherization grant funds and that the NJCAA does not have an adequate financial management system. The issues we discovered raised questions about the NJCAA's viability as a going concern. We also noted that the DCA circumvented state policies regarding procurement by using the NJCAA to contract with a vendor instead of entering into contracts directly with the vendor.

When details of the NJCAA's financial management problems were brought to the department's attention in October 2010, the department immediately put spending controls in place for all grants provided to the NJCAA.

Budgetary Controls

Inadequate budgetary controls over the Weatherization grant enabled the New Jersey Community Action Association (NJCAA) to improperly spend grant funds.

The Department of Community Affairs (DCA) provided the NJCAA with advance payments for the ARRA Weatherization grant totaling \$700,000. These advances represented more than any annual grant previously received by the NJCAA from the DCA. The payments were authorized by DCA's Initial Grant Advance Payment policy, which allows for the payment of grant funds up to 35 percent of the grant award amount to provide the grant recipient with sufficient funds to meet its immediate cash flow needs. DCA procedures did not require the NJCAA to spend any of the advance payments before requesting grant reimbursements based on reported grant expenditures. This has enabled the NJCAA to spend the Weatherization grant advance funds without accountability until the completion of the grant period.

In addition, the NJCAA's budget did not establish sufficient restrictions on grant expenditures. The grant agreement containing the budget was a template of the contract used by the DCA with its weatherization agencies, even though the services to be provided by the NJCAA were not similar to those provided by the weatherization agencies. The budget only included two line items, which were "Personnel: Training" for \$1,000,037 and "Personnel: Other" for \$1,537,963. It did not include such major categories as administrative payroll, advertising, and information technology. This lack of budget detail did not provide the means for DCA to exercise meaningful review of the NJCAA's spending.

The NJCAA had received \$2.1 million from the DCA as of November 30, 2010 in the form of advances and reimbursements for ARRA Weatherization expenses. The association can only show support for expenses totaling \$1.5 million and it only has \$270,000 in all of its bank accounts as of November 30, 2010. This amount is insufficient to cover the remaining balance of \$600,000 in unsupported ARRA Weatherization funds received from DCA.

This deficiency raises questions about NJCAA's viability as a going concern since the primary source of its funding is from the DCA. The association has not established adequate internal controls to monitor its expenditures, thus allowing expenditures and commitments to exceed annual revenue and creating disallowed costs relating to DCA programs.

The DCA has performed some monitoring of the NJCAA, although not specific to the ARRA Weatherization grant. The department receives an annual single audit of the association's financial statements. A desk review is completed by the department's internal audit staff and the results of the review are forwarded to the department's Division of Housing and Community Resources for use in the monitoring of their programs. The fiscal year 2009 single audit, which was received June 22, 2010, reported a material weakness in that the NJCAA did not appropriately adjust its accounts to properly reflect the year end account balances and prepare complete financial statements. In addition, a management letter was prepared which noted

weaknesses regarding expenditures, fixed assets, general ledger software, payroll, and insurance. The department has also contracted with a certified public accounting firm to conduct monitoring visits to determine contractual and fiscal compliance with the terms of specific grant agreements. A monitoring visit designed to test the reliability and integrity of accounting and financial information submitted to the department, as well as the agency's compliance with established policies, plans, procedures, and guidelines, was conducted in April 2010 for the Community Service Block Grant (CSBG) and the Low-Income Home Energy Assistance Program (LIHEAP). Weaknesses noted during the visit included disbursements after the grant period, outstanding checks, timesheets that did not support payroll charges, and interest earned over \$250 that should be submitted to the DCA. The division requested a corrective action plan be submitted by the NJCAA on June 24, 2010 in response to the monitoring visit. A corrective action plan was received for the CSBG program in June, but no plan has been received for the LIHEAP grant as of November 30, 2010.

Recommendation

We recommend the DCA not provide any additional funds to the NJCAA until the total funds already issued are spent and supported. The DCA should also consider other alternatives for the advertising and marketing of the ARRA Weatherization Assistance Program.

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Procurement

The Department of Community Affairs (DCA) circumvented state policies regarding procurement by using the New Jersey Community Action Association (NJCAA) to contract with a vendor instead of entering into an agreement directly with the vendor.

Department of the Treasury Circular Letter 09-11 states that all goods and services should be procured, to the extent feasible, through publicly advertised bidding, unless a waiver of advertising has been obtained. In addition, Department of the Treasury Circular Letter 07-06 states that any Information Technology purchase over \$2,500 must be approved by the Office of Information Technology (OIT), while Circular Letter 07-14 established a moratorium on IT purchases over \$2,500 except when approved by OIT.

The Hancock Energy Software Weatherization Assistance Program (HESWAP) is used by the weatherization agencies to determine eligibility, monitor the progress of the applications, and track program expenditures. The NJCAA originally entered into a one- year contract with Hancock Energy Software, Inc (Hancock) effective July 1, 2008 to provide software licenses and support services for the HESWAP online system. A second contract was agreed to between the same two parties that extended the term until June 30, 2014. The department budgeted ARRA Weatherization funds of \$538,000 to NJCAA for expenses related to HESWAP. As of November 30, 2010, the NJCAA has paid the entire \$538,000 budget, but system expenses of at least \$350,000 remain. In addition, the NJCAA paid \$677,000 from other DCA grants for

expenses related to HESWAP so that the overall cost to date for HESWAP is \$1,215,000.

Payments to Hancock are made by the NJCAA only after verbal approval by the DCA. DCA personnel exercise control over the contract and communicate directly with Hancock to resolve any and all service issues. Our review of the HESWAP contracts and invoices noted the following problems.

- The NJCAA did not purchase the Davis-Bacon module but paid \$12,500 for this enhancement.
- The contract specifies that the NJCAA assumes the entire risk of data loss or corruption that may occur.
- No provisions were made in the contract for the ownership of the information.

Recommendation

We recommend that the department comply with the laws and policies of the State of New Jersey for all procurement of applications and data processing systems. In addition, we recommend the department make an effort to obtain ownership of the data and applicable license. We further recommend that the department recover the \$12,500 that was overpaid for the Davis-Bacon module and review invoices in more detail prior to the payments by the NJCAA.



NJCAA Financial Management System

The New Jersey Community Action Association (NJCAA) has not maintained an adequate financial management system.

Section XII of the Department of Community Affairs' (DCA) General Terms and Conditions for Administering a Grant/Loan requires all grant recipients to maintain an adequate financial management system that provides for financial reporting, accounting records, internal control, budget control, allowable cost, source documentation, and cash management. Following are examples of the association's financial management system deficiencies.

1. The NJCAA's general ledger is not maintained properly. We noted unposted and inaccurate transactions, and accrued expenses that were never reversed.
2. The funds for the ARRA weatherization program have been commingled with funds from other DCA programs, state and federal programs, and the association's restricted fund. The general ledger does not accurately indicate which program the funds relate to.
3. The Financial Status Reports (FSRs) submitted to DCA were not supported by actual expenditures. The first FSR submitted was overstated by approximately \$200,000, which resulted in an inaccurate ARRA report submitted by the DCA to the federal government. In addition, we found reimbursements to the NJCAA from weatherization agencies for program

purchases or services that were treated as income by the NJCAA on the general ledger and no credit was given to the DCA on the FSRs.

4. NJCAA invoices were not reviewed adequately by NJCAA personnel to ensure that they were properly supported, in compliance with contracts, and paid timely. In addition, invoices were not properly allocated to the specific grant programs.

- One vendor was paid \$27,500 to analyze weatherization training and develop a plan to expand the training process. No plan was developed.
- Our review of advertising contracts indicated there was no comparison between contract terms and invoices, and overcharges totaling \$18,000 were paid by the NJCAA to one vendor.
- Numerous late fees and interest charges were paid by the NJCAA.

5. An individual with no affiliation with the NJCAA approved approximately 26 percent of the ARRA weatherization checks using a signature stamp for the association's Treasurer.

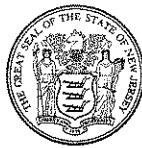
6. No accounts payable records were maintained by the NJCAA and there was no central location in the NJCAA that maintained all outstanding bills. We were unable to determine with certainty total outstanding bills at the time of our review. Based on the bills provided, there was over \$400,000 in outstanding bills, including \$235,000 in ARRA Weatherization Assistance Program bills.

7. In November 2009, salary increases were given to four association personnel ranging from 22 percent to 61 percent (\$7,000 to \$40,000) based on "increased responsibilities" resulting from the ARRA Weatherization program. The increases, which were retroactive to April 6, 2009, were not documented as being approved in the board meeting minutes. In addition, time charged to the ARRA Weatherization program was not supported by agency timesheets; our review of timesheets noted that some were not signed by employees and most were not approved by a supervisor.

8. The association's annual dues deposited into its Special Fund bank account was not sufficient to cover the \$116,000 expended from September 2009 to November 2010. The commingling and use of funds in the Special Fund means that state and federal funds have contributed to the payment of \$7,000 for political receptions, \$25,000 for a down payment on a new facility, \$7,500 for grant writing services, \$6,600 for unoccupied building expenses, \$2,200 for late fees, \$5,500 for country club bills, and other expenses not chargeable to state and federal grants.

Recommendation

DCA should require the NJCAA to improve its financial management system by strengthening controls over general ledger recordkeeping and the preparation of Financial Status Reports, the review and payment of invoices, and the maintenance of time records. Unsupported and ineligible costs should not be billed to and reimbursed by the DCA for any of its grants.



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Governor

KIM GUADAGNO
Lt. Governor

LORI GRIFA
Commissioner

April 14, 2011

Stephen M. Eells, State Auditor
Office of the State Auditor
Office of Legislative Services
125 S. Warren Street
Trenton, New Jersey 08625-0067

Dear Mr. Eells,

I appreciate the opportunity to respond to the latest audit report that focused on the Department of Community Affairs' (DCA) American Recovery and Reinvestment Act's (ARRA) Weatherization Assistance Program (WAP) grant to the New Jersey Community Action Association (NJCAA).

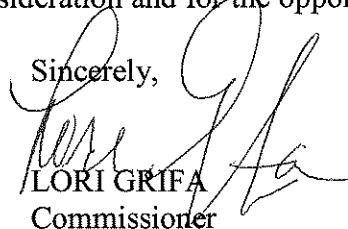
The DCA concurs with the recommendations presented in this report and with your overall conclusion that controls need to be more effectively implemented. We also appreciate that OLS brought these concerns to our attention while the engagement was ongoing. This enabled us to address the issues immediately and precisely.

As a result of previous reports, the Weatherization Assistance Program underwent a significant change in management in October 2010. At my direction, the new management team began immediately to implement corrective actions. Based on DCA's review, DCA ceased all funding to the NJCAA effective November 15, 2010, except for those cases where critical systems required a continuation in funding. In cases where the systems must remain operating, the DCA established the strictest possible controls regarding funds and payments to vendors. The Department has also engaged an independent auditor to perform a thorough forensic review of all NJCAA transactions. Once the independent forensic audit is complete and all funds are properly accounted for and the responsibilities for programmatic functions have been assumed by other qualified entities, DCA will sever its relationship to the NJCAA.

A detailed response to the audit report findings and recommendations is contained in the attachment to this letter. If you have any questions, please contact Paul Stridick, Director of the DCA's Division of Housing and Community Resources at 609.984.7082.

Thank you again for your on-going consideration and for the opportunity to respond to this report.

Sincerely,



LORI GRIFA
Commissioner

Attachment



Budgetary Controls

OLS Recommendation

We recommend the DCA not provide any additional funds to the NJCAA until the total funds already issued are spent and supported. The DCA should also consider other alternatives for the advertising and marketing of the ARRA Weatherization Assistance Program.

DCA Response

The DCA has ceased all funding to NJCAA except in cases where critical systems, such as the production and expenditure tracking system, under contract to NJCAA must remain operating to ensure that program production continues uninterrupted. Furthermore, the Department has also engaged an independent auditor to perform a thorough forensic review of all NJCAA transactions. In cases where systems must remain operating, DCA has established strict controls regarding funds and payment to vendors. These controls will remain in place until all funds are accounted for and supported by documentation acceptable to the Department's internal audit unit. When all funds have been properly accounted for and responsibilities for needed program activities have been assumed by others, the DCA will sever its relationship with NJCAA.

In order to be confident in an organization's fiscal soundness and to identify financial risks, the DCA has traditionally relied upon fiscal monitoring accomplished through two methods: the review of an annual independent audit provided by the grantee within nine months after the close of their fiscal year, and periodic reviews by an accounting firm hired by the DCA.

These methods help identify general risks associated with grantees, as well as specific issues such as those highlighted by the OLS in this report. In the case of NJCAA, these two reviews pre-dated the substantial influx of funds associated with the ARRA programs. The most recent single audit provided by NJCAA was for the fiscal year ending June 30, 2009; it was not received until June 2010, approximately 3 months later than the 9 month submission period. Independent audits for the NJCAA's fiscal years ending June 30, 2008 and 2009 did not include statements from the auditor that indicated there was substantial doubt regarding the Association's ability to continue as a going concern.

NJCAA's annual audit for the fiscal year ending June 30, 2010 was due to the DCA by March 31, 2011, nine months after the close of their fiscal year. Again, they failed to submit by the deadline. An extension was not granted, and NJCAA has been suspended.

The State auditor's review of NJCAA began in November 2010. Based in part on the close working relationship between DCA staff and the Auditor's staff, the suspension of additional funding was ordered on November 15, 2010. Furthermore, at that same time, the DCA also ordered an agency wide forensic review of all NJCAA accounts. Though a preliminary expense report was provided to the DCA in January 2011, NJCAA has yet to complete this task and submit a final report.

Procurement

OLS Recommendation

We recommend that the department comply with the laws and policies of the state of New Jersey for all procurement of applications and data processing systems. In addition, we recommend the department make an effort to obtain ownership of the data and applicable license. We further recommend that the department recover the \$12,500 that was overpaid for the Davis-Bacon module and review invoices in more detail prior to the payments by NJCAA.

DCA Response

The data processing system was originally contracted by NJCAA in 2008 as a tool to assist weatherization agencies in reporting production and expenditures efficiently and accurately. As the federal reporting requirements became better defined, the need to continually adjust the reporting system became apparent. As a result, the DCA took on a greater role and responsibility due to the needs and demands of the program, and the shortcomings of NJCAA. Given the DCA's current involvement, we concur that it is proper for the DCA to acquire the licenses related to database system.

Since December 2010, DCA has been in process to acquire the licenses for the system. As a result of a recent request for quotations (RFQ) to solicit vendors, the DCA has obtained quotes for the continuation of the system through September 2012. We are finalizing a contract to assume ownership of the licenses and all related data. The transfer is expected imminently.

Regarding the Davis Bacon module: When NJCAA originally contracted in 2008 for the data system module to track wage payments, the federal government had not yet provided clear direction regarding titles, wages and/or benefit amounts. As the US Department of Labor clarified information (such as the split of counties at different wage rates, number and type of contractors and agencies required to file), it was determined that the module would not be sufficient to handle the complex requirements. Since this module was not utilized, \$12,500 will be credited by the vendor toward future needs.

NJCAA Financial Management System

OLS Recommendation

DCA should require NJCAA to improve its financial management system by strengthening controls over general ledger recordkeeping and the preparation of Financial Status Reports, the review and payment of invoices, and the maintenance of time records. Unsupported and ineligible costs should not be billed to and reimbursed by the DCA for any of its grants.

DCA Response

All grant agreements effectuated by DCA include requirements that subrecipients maintain an adequate financial management system to effectively comply with the terms and conditions of the contract. NJCAA has failed to comply with these requirements. DCA concurs with the OLS findings and will sever its relationship with the Association.

OLS has also identified examples where NJCAA executives, staff and the organization's Board of Directors have failed to meet its fiduciary and organizational oversight responsibilities. There is significant doubt over the agency's ability to continue as a going concern.

Once NJCAA's forensic audit is submitted, and all documentation is reviewed, the DCA will continue to take any and all appropriate actions to recover funds and hold the proper individuals and entities accountable, including possible referral for prosecution.

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